

Message Text

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67

ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EA-07 ISO-00 INT-05 GSA-01 SP-02

AID-05 NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06

XMB-02 OPIC-03 LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01

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P R 132050Z NOV 75

FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC PRIORITY 5315

INFO AMEMBASSY CANBERRA

AMEMBASSY CONAKRY

AMEMBASSY GEORGETOWN

AMEMBASSY KINGSTON

AMEMBASSY PORT AU PRINCE

AMCONSUL PARAMARIBO

C O N F I D E N T I A L SANTO DOMINGO 5073

E.O. 11652: GDS

TAGS: EMIN, EFIN, IND, DR

SUBJECT: BAUXITE: ALCOA AND GODR SIGN AGREEMENT ON EXTENDING
CONCESSION

REFS: (A) SD-4465

(B) SD-3976

1. ALCOA AND GODR SIGNED AGREEMENT NOVEMBER 12 ON TERMS FOR
CONTINUING THE FORMER'S BAUXITE CONCESSION THROUGH DECEMBER 31,
1976. AGREEMENT ALSO CONTAINED PROVISION FOR RETROACTIVE PAYMENTS
WITHOUT INTEREST TO GODR FROM APRIL 1, 1974. TERMS OF AGREEMENT
ARE GENERALLY ALONG THE LINES OF THOSE REPORTED REFTEL (A) WITH
CONCESSIONS FROM BOTH SIDES RESULTING IN TOTAL GODR REVENUE AND
INCOME WHICH APPEAR TO BE SLIGHTLY LESS THAN UNDER THE JAMAICAN
FORMULA.

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2. EMBASSY UNDERSTANDS THAT PRESIDENT BALAGUER INTERVENED PERSONALLY BY TAKING OVER THE NEGOTIATIONS FROM THE GODR COMMISSION HEADED BY SECRETARY OF FINANCE ALVAREZ BOGAERT. AGREEMENT WAS SIGNED IN BALAGUER'S PRESENCE BY ALVAREZ BOGAERT AND BY ALCOA VICE PRESIDENT CHARLES W. PARRY.

3. THE LAST ISSUES OF THE NEGOTIATION WHICH WERE RESOLVED CONCERNED (1) THE FORMULA FOR CONVERTING BAUXITE INTO ALUMINUM WITH ALCOA HOLDING OUT FOR A 5.0 FIGURE AND THE GODR ASKING FOR A 4.8. FIGURE; AND (2) THE JAMAICAN LEVY OF 7.5 PERCENT FOR LAST YEAR AND 8.0 PERCENT FOR THIS YEAR. IN SOMETHING OF A TRADE-OFF BETWEEN THESE TWO, IT WAS AGREED THAT THE CONVERSION FORMULA WOULD BE 4.8 FOR 1974, 1975, AND 1976; BUT THAT THE LEVY FIGURE WOULD BE 7.5 PERCENT FOR 1974 AND 7.7 PERCENT FOR 1975 AND 1976. THIS FORMULA RESULTS IN INCOME TO THE GODR OF \$9.77 PER BONE DRY LONG TON (BDLT) OF BAUXITE EXPORTED IN 1974, \$12.35 FOR 1975, AND \$13.31 FOR 1976, ASSUMING ALUMINUM PRICES OF 31.25 CENTS PER POUND IN 1974, 38.5 CENTS PER POUND IN 1975, AND 41.5 CENTS PER POUND IN 1976.

4. IN ADDITION TO THE REVENUE PRODUCED BY THIS EQUATION, THE GODR WOULD RECEIVE A ROYALTY OF 55 CENTS PER METRIC TON OF BAUXITE EXPORTED.

5. THE FORMULA, THUS, PROVIDES FOR THE USE OF SHORT TONS IN CONVERTING FROM BAUXITE TO ALUMINUM BUT LONG TONS IN CALCULATING THE EXPORT OF BAUXITE, AND METRIC TONS (A LONG TON IS 1.016 METRIC TONS) FOR THE ROYALTY PAYMENTS OF 55 CENTS.

6 ON THE BASIS OF 882,665 BDLT OF BAUXITE EXPORTED IN 1974, THE GODR REALIZES AN INCOME, INCLUDING THE 55 CENTS PER METRIC TON ROYALTY, OF \$9,117,000, OF WHICH ALCOA HAS ALREADY PAID \$6,442,646. ESTIMATING BAUXITE EXPORTS AT 738,000 BDLT FOR 1975 AND 1976, WITH THE ASSUMED ALUMINUM PRICES DESCRIBED ABOVE, GODR INCOME FROM BAUXITE WILL BE \$9,526,800 FOR 1975 AND \$10,238,662 FOR 1976. (ALCOA'S TOTAL ANNUAL PAYMENTS TO THE GODR WERE \$4.0 MILLION IN 1971, \$4.0 MILLION IN 1972, AND \$4.4 MILLION IN 1973.)

7. DOMINICAN BAUXITE EXPORTS ARE CURRENTLY OFF PRIMARILY BECAUSE OF THE RECESSION IN THE US. IF ONE ASSUMESN
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IUXITE EXPORTS IN
1976 AT THE SAME RATE AS IN 1974, THE TOTAL INCOME ACCRUED TO THE GODR WOULD BE \$12,241,635.

8. THE GODR DEMAND THAT ALCOA BUILD AN ALUMINA PROCESSING PLANT IN THE DR WAS DISPOSED OF FOR THE TIME BEING BY THE AGREEMENT THAT ALCOA WOULD LEND FINANCIAL ASSISTANCE TO A FEASIBILITY STUDY OF THE PLANT, STARTING WITH A SURVEY OF THE BAUXITE RESERVES IN

THE COUNTRY. (THERE ARE ONLY ENOUGH KNOWN RESERVES AT ALCOA'S
CURRENT SITE TO LAST 20 YEARS AT THE CURRENT RATE OF PRODUCTION.)

9. IT WAS IMMEDIATELY ANNOUNCED AT THE TIME OF THE SETTLEMENT
THAT ALCOA AND THE GODR EXPECT TO START NEGOTIATIONS AGAIN
WITHIN 90 DAYS ON THE TERMS FOR EXTENDING THE CONCESSION BEYOND
976. NEVERTHELESS, THE EMBASSY BELIEVES IT SIGNIFICANT THAT
PRESIDENT BALAGUER IS CONCERNED ENOUGH ABOUT MAINTAINING A GOOD
FOREIGN INVESTMENT CLIMATE IN THE DR TO HAVE REACHED A SETTLEMENT
ON TERMS WHICH APPEAR TO BE SLIGHTLY LESS FAVORABLE THAN THOSE OF
THE JAMAICAN FORMULA.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, BAUXITE, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SANTO05073
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750395-1170
From: SANTO DOMINGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751146/aaaaborv.tel
Line Count: 127
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 SANTO DOMINGO 4465
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 08 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 JUL 2003 by ShawDG>; APPROVED <12 NOV 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BAUXITE: ALCOA AND GODR SIGN AGREEMENT ON EXTENDING CONCESSION
TAGS: EMIN, EFIN, DR, ALCOA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006